

**WRITTEN TESTIMONY OF
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INTERNAL REVENUE SERVICE
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
ON
ASSISTANCE FOR DISTRESSED TAXPAYERS
FEBRUARY 26, 2009**

Good morning, Chairman Lewis, Ranking Member Boustany, and Members of the Subcommittee on Oversight. I appreciate the opportunity to appear this morning and discuss efforts the IRS has made to assist economically distressed taxpayers during this period of greatest need. This is our first visit before the Subcommittee this year, and I look forward to continuing the productive relationship with the Subcommittee and its Members as we have had in previous years.

Our effort to assist taxpayers during these difficult times is a confirmation of part of IRS' core mission, which is to assist taxpayers in any way possible to meet their obligations. Commissioner Shulman said as much earlier this year when he remarked:

“We need to ensure that we balance our responsibility to enforce the law with the economic realities facing many American citizens today. We want to go the extra mile to help taxpayers, especially those who’ve done the right thing in the past and are facing unusual hardships.”

What this means in real terms is that on a wide range of situations, IRS employees now have the flexibility to work with struggling taxpayers to assist them with their situation. Depending on the circumstances, taxpayers in hardship situations may be able to adjust payments for back taxes, avoid defaulting on payment agreements or possibly defer collection action.

The IRS reminds taxpayers who are behind on tax payments and need assistance to contact the phone numbers listed on their IRS correspondence. There could be additional help available for these taxpayers facing unusual hardship situations.

For example, four days after President Barack Obama signed the American Recovery and Reinvestment Act of 2009 into law, the U.S. Department of the Treasury began directing employers to reduce the amount of taxes withheld from the paychecks of millions of American workers – a step unprecedented in its speed and scope.

Under the law signed last Tuesday by President Obama, 95 percent of all working families will realize a tax cut. By April 1st, the Making Work Pay credit, a key provision of the new law, will send the typical family home with at least \$65 more every month.

Treasury and the Internal Revenue Service (IRS) worked to develop withholding tables released today by the IRS to incorporate this credit and provide expedited guidance to employers on the new provision. As Treasury Secretary Geithner observed, "Just days after the President signed this landmark legislation into law, we have the wheels turning to deliver much needed boosts to the paychecks of working Americans."

The IRS posted the new withholding tables on IRS.gov and will shortly publish additional instructions related to the new tax law online. The paper version of this publication (15-T) will also be mailed to more than 9 million employers in mid-March. Employers are asked to start using the new tables as soon as possible but no later than April 1. To view the tables and additional guidance on the Making Work Pay credit, please see IRS.gov.

We look forward to working with the Subcommittee to ensure these programs are carried out in an efficient, effective way. Before discussing these programs, however, I would first like to discuss what the IRS is doing for taxpayers having difficulty meeting their tax obligations.

Assisting Taxpayers

IRS is nearing the completion of its strategic plan for the years 2009-2014. One of the plan's two key objectives is to offer high levels of customer service to those taxpayers who need it. Meeting this objective will require us to continue our taxpayer service efforts reflected in the Taxpayer Assistance Blueprint (TAB) and in other areas.

A key component of that plan is performing outreach that both helps us determine taxpayer needs and also allows us to provide information to taxpayers on critical benefit programs. Nowhere in recent history has the need for taxpayers to avail themselves of every available tax benefit been greater.

However, we also understand taxpayer service can only go so far in assisting millions of distressed taxpayers suffering from the current economic crisis. The taxpayer may owe money to the IRS and be unable to pay.

Accordingly, we are attempting to assist these taxpayers in a number of ways by reminding our enforcement personnel of certain tools available when working with distressed taxpayers who owe money to the IRS. These include:

- **Offering Installment Agreements:** We have reminded examination employees of their responsibilities to consider collectability during the pre-audit phase. They were also reminded of their ability to offer installment agreements at the end of an audit where taxpayers are having difficulty satisfying their obligations immediately, thereby enabling them to minimize interest and penalty charges.

- **Postponement of Collection Actions:** IRS employees may suspend collection actions in certain hardship cases where taxpayers are unable to pay. This includes instances when the taxpayer has recently lost a job, is relying solely on Social Security or welfare income or is facing devastating illness or significant medical bills. If an individual has recently encountered this type of financial problem, IRS assistants may be able to suspend collection without further documentation to minimize the tax burden on the taxpayer.
- **Added Flexibility for Missed Payments:** The IRS has flexibility in working with previously compliant individuals in existing Installment Agreements who have difficulty making payments because of a job loss or other financial hardship. The IRS may allow a skipped payment or a reduced monthly payment amount without automatically suspending the Installment Agreement. We will issue taxpayers in such a difficult financial situation a notice asking them to contact the IRS.
- **Additional Review for Offers in Compromise on Home Values:** An Offer in Compromise (OIC), an agreement between a taxpayer and the IRS that settles the taxpayer's tax debt for less than the full amount owed, may be a viable option for taxpayers experiencing economic difficulties. However, the equity taxpayers have in real property can be a barrier to an OIC being accepted. With the uncertainty in the housing market, the IRS recognizes that the real-estate valuations used to assess ability to pay may not be accurate.

In cases where the accuracy of the real estate valuation is in question, the offer will be referred to a specialized group who will conduct a second review to confirm the value of the real property and ensure the reasonable collection potential has been properly determined and revised, if appropriate.

- **Prevention of Offer in Compromise Defaults:** Taxpayers who are unable to meet the payment terms of an accepted OIC will receive a letter from the IRS outlining options available to help them avoid default.
- **Expedited Levy Releases:** The IRS will speed the delivery of levy releases by easing requirements on taxpayers who request expedited levy releases for hardship reasons. Taxpayers seeking expedited releases for levies to an employer or bank should contact the IRS number shown on the notice of levy to discuss available options. When calling, taxpayers requesting a levy release due to hardship should be prepared to provide the IRS with the fax number of the bank or employer processing the levy.
- **Voluntary Tip Reporting Agreements:** Recognizing the impact of the current economic downturn, IRS reached out to the commercial casino industry via their primary representatives: the American Gaming Association (AGA) and the Culinary Union. We hosted a Tip Summit in late October and obtained key financial data indicating the rough magnitude of the downturn on casinos and

their workers. A month later, we reduced our voluntary tip rates for all Las Vegas Casinos by 20 percent and delayed imposition of a scheduled 33 percent increase on January 1st. We also proactively reached out to Atlantic City and delayed a scheduled 33 percent increase scheduled for the first of January; we also addressed Northern Illinois floating casinos and reduced their rates 20 percent. We are also ensuring that the process is fair and equitable for all commercial casinos located throughout the United States.

- **Fast Track Settlement:** IRS is also vigorously pursuing Fast Track Settlement (FTS) for field cases. FTS is designed to settle cases more quickly than is possible with traditional Appeals procedures. This process is especially beneficial to taxpayers who have a tax liability in dispute that is greater than \$25,000. In FTS, the examiner brings in an Appeals official to facilitate settlement while the case remains at the group level. It is being piloted in eight cities throughout the country.
- **Technical Guidance:** We are actively working with the National Council of State Housing Agencies (NCSHA) and individual agencies to provide technical assistance and administrative oversight for the Low Income Housing Credit (LIHC) program.

We also continue to respond to tax questions from the public with respect to a wide variety of technical issues including: historic tax incentives, Passive Activity Losses, Partnerships, Sub S Corps, and specific industry related issues (such as Retail, Construction, LIHC, Fishing and Services).

- **What If Scenarios:** Finally, taxpayers with financial problems who discover they can't pay when they file their 2008 tax returns also have options available. IRS.gov has a list of "What If?" scenarios that deal with payment and other financial problems. These scenarios, in question-and-answer format, provide information on specific actions taxpayers can take. Taxpayers unable to pay in full can likewise contact the IRS to discuss additional options to pay.

Earned Income Tax Credit

One important benefit available to many taxpayers of low- to moderate-income is the earned income tax credit (EITC). The American Recovery and Reinvestment Act that was recently signed into law temporarily reduced marriage penalties for EITC recipients and increased the credit for individuals and families with 3 or more qualifying children. The IRS has in place an aggressive outreach program designed to reach every taxpayer that qualifies for the EITC. Efforts to advise taxpayers about the availability of the EITC include:

- **EITC Awareness Day** – Each year the IRS schedules a specific day to focus on the availability of the EITC credit. We work with hundreds of partners in the states and local communities to provide information and answer questions about

the credit. We also schedule press briefings with the national media and other events to highlight the importance of the EITC. I know that Chairman Rangel and Subcommittee Chairman Lewis have often accompanied the IRS Commissioner to such important EITC outreach events. We appreciate those efforts and are ready to work with other Members of Congress who might wish to schedule an EITC related event in their state or district.

This year, EITC Awareness Day was held on Friday, January 30th when more than 80 partners from across the country conducted news conferences and over a hundred more issued press releases all focused on getting the word out about the availability of the EITC. In all, 480 press conferences were held or press releases issued by IRS partners. IRS officials participated in events across the country including one in Peoria, IL with the new Governor of that state.

- In collaboration with EITC Awareness Day activities, we also offered EITC assistance in more than 170 Taxpayer Assistance Centers across the country on three Saturdays: January 31, February 7 and February 21, 2009. IRS employees prepared income tax returns for EITC-eligible taxpayers.
- **Greater Utilization of IRS.gov** – We live in an electronic age, and the IRS is making as many resources as possible available on its website, IRS.gov. Relative to the EITC, a visitor to IRS.gov could, in English or Spanish, determine his or her eligibility for the EITC. In addition, there are a number of tools available to both our local community partners or to paid tax preparers that will assist them in helping EITC-eligible clients. For example, information available to paid preparers include: (a) The latest EITC updates; (b) EITC eligibility criteria; (c) Tips and tools for preparation of EITC returns; (d) EITC due diligence educational materials; (e) Specialized products and links to other helpful resources; and (f) an electronic toolkit for tax professionals at [EITC Central](#).

For our community partners, the offerings are focused on marketing materials designed to get the word out to potential recipients. IRS provides an electronic “Partner Toolkit” that includes an array of useful general and specialized marketing tools, such as templates, statistics, fact sheets, how-to tips, specialized products and links to other helpful resources. It allows the partner to create and customize EITC communication products with location, logo and personal messages.

There is also a wealth of other information on IRS.gov that will assist employers in notifying their employees about the potential availability of the EITC and the possibility of receiving advance EITC – a program that allows employees to receive the EITC benefits through the course of the year, and not as part of a lump sum payment when that same employee files his or her Federal tax return.

- **Direct and Indirect Outreach** – Efforts to make taxpayers aware of potential EITC eligibility are not limited to just a single day. IRS continues promotional

efforts throughout the entire tax season. This includes working with both the local and national media keeping them aware of the availability of EITC, as well as the publication and distribution of materials that can be handed out in local communities.

Other Tax Credits

The EITC is not the only credit for which taxpayers may be eligible. Information is available for all these credits on IRS.gov. They include:

- **Making Work Pay Credit:** As part of the American Recovery and Reinvestment Act of 2009, this provision allows a tax credit for each eligible individual for the taxable year in an amount equal to 6.2 percent of earned income of the taxpayer, or \$400 (\$800 in the case of a joint return). The amount allowable as a credit for the taxable year shall be reduced (but not below zero) by two percent of so much of the taxpayer's modified adjusted gross income as exceeds \$75,000 (\$150,000 in the case of a joint return). This section applies to taxable years beginning after December 31, 2008 and on or before December 31, 2010.
- **Child Tax Credit** – A taxpayer who has a dependent child under age 17 probably qualifies for the child tax credit. This credit, which can be as much as \$1,000 per eligible child, is in addition to the \$3,500 exemption for each dependent. A change in the way the credit is figured means that more low- and moderate-income families will qualify for the full credit on their 2008 returns. The child tax credit is not the same as the child care credit. Details on figuring and claiming the child tax credit can be found in IRS Publication 972, which is available on our web site.
- **Credit for Child and Dependent Care Expenses** – An individual who pays for someone to care for a child so he or she can work or look for work, probably qualifies for the child and dependent care credit. Normally, the child must be the taxpayer's dependent and under age 13. Though often referred to as the child care credit, this credit is also available to those who pay someone to care for a spouse or dependent, regardless of age, which are unable to care for themselves. In most cases, the care provider's Social Security Number or taxpayer identification number must be obtained and entered on the return.
- **Education Credits** – The Hope credit and the lifetime learning credit help parents and students pay for post-secondary education. Normally, a taxpayer can claim both his or her own tuition and required enrollment fees, as well as those for a dependent's college education. The Hope credit targets the first two years of post-secondary education and an eligible student must be enrolled at least half the normal full-time workload (for at least one academic period). A taxpayer can also choose the lifetime learning credit, even if he or she is only taking one course. In some cases, however, the taxpayer may do better by claiming the tuition and fees deduction instead.

An education credit and the tuition and fees deduction cannot both be claimed for the same student in the same year. Special rules, including income limits, apply to each of these tax breaks. Details on these and other education-related tax breaks are contained in Publication 970.

- **Saver's Credit** – The saver's credit is designed to help low- and moderate-income workers save for retirement. A taxpayer probably qualifies if his or her income is below certain limits and he or she contributes to an IRA or workplace retirement plan, such as a 401(k). Income limits for 2008 are:
 - \$26,500 for singles and married taxpayers filing separately
 - \$39,750 for heads of household and
 - \$53,000 for joint filers

Also known as the retirement savings contributions credit, the saver's credit is available in addition to any other tax savings that apply. There is still time to put money into an IRA and get the saver's credit on a 2008 return. Contributions to an IRA for 2008 can be made until April 15, 2009.

- **Other Credits Available** – IRS.gov has information on other available credits including:
 - The foreign tax credit;
 - Credit for the elderly or the disabled;
 - The adoption credit;
 - The residential energy efficient property credit; and
 - The alternative motor vehicle (including hybrids) credit.

Everyone is advised to check for eligibility for each of the credits listed above. Many individuals who have less income in 2008 than in previous years may now be eligible to claim certain tax benefits for which they were previously not eligible.

Recently Enacted Credits

Congress has recently enacted several new credits as well as other tax breaks. These include:

- **First-Time Homebuyer Credit:** Those who bought a principal residence recently or are considering buying one should take note. This unique credit provides up to \$7,500 for qualified taxpayers who purchased homes after April 8, 2008 and on or before December 31, 2008 and works much like a 15-year interest-free loan. For homes purchased after December 31, 2008 and before December 1, 2009, the credit is \$8,000 and does not have to be repaid provided the home remains their main residence for 36 months after the purchase date. Information and answers to commonly asked questions about this credit are available on IRS.gov.

- **The Recovery Rebate Credit:** This credit is figured like last year's Economic Stimulus Payment except that Recovery Rebate Credit amounts are based on tax year 2008 instead of 2007. Most people already received their full benefit in the form of the Economic Stimulus Payment. However, a taxpayer may qualify for the Recovery Rebate Credit if, for example, he or she did not get an Economic Stimulus Payment, had a child in 2008 or had a change in income level. If you receive this credit, it will be included in your refund and will not be issued as a separate payment.
- **Mortgage Workouts and Foreclosures:** For homeowners, mortgage workouts now may be tax-free. Eligible homeowners can exclude debt forgiven on their principal residence if the balance of the loan was less than \$2 million. The limit is \$1 million for a married person filing a separate return. Form 982 and its instructions have details about this program.
- **American Opportunity Tax Credit:** For taxable years beginning in 2009 or 2010, taxpayers will receive a tax credit equal to the sum of 100% of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year plus 25% of those expenses in excess of \$2,000 up to \$4,000. The credit is allowed for the first 4 years of post-secondary education. The credit is subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly.)

Super Saturday

As with the EITC, the IRS is using every media opportunity to make sure that taxpayers know, and take advantage of, all available credits. We have distributed news releases, conducted interviews with various media outlets, and shared media materials with our partners throughout the country.

In an effort to maximize our promotional efforts and to assist as many taxpayers as possible, IRS will conduct a Super Saturday event on Saturday, March 21. This will be the second Super Saturday that we have conducted in the last 11 months. The first was held March 29, 2008 and focused on alerting those individuals who had not filed a tax return for 2007 that they may be eligible for the economic stimulus rebate. It was a great success.

This year, we hope to use the Super Saturday event to highlight all of the services offered by the IRS to assist taxpayers during these troubled economic times and to provide direct, hands-on-assistance to those taxpayers visiting an IRS facility on that day.

We have already identified more than 250 Taxpayer Assistance Centers that will be staffed on that day. In addition, we hope to leverage our partnerships with groups in the local community to make available literally hundreds of facilities across the country that will be open on that day and ready to assist taxpayers.

I should note that IRS has incorporated information on all individual credits and related tax law in the training curriculum and certification process for the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. Nearly 80,000 certified volunteers are staffing approximately 11,500 sites nationwide assisting taxpayers.

For the 2009 Filing Season, IRS increased the scope of return preparation at VITA/TCE sites to allow for the inclusion of returns with Cancellation of Debt issues in a direct response to the increased number of taxpayers facing mortgage foreclosures. IRS has provided training to its employees and specific training modules for those partners who wanted to increase their scope of services to include the Cancellation of Debt issue. Our Taxpayer Assistance Centers have also expanded tax law scope of services to include Cancellation of Debt Income and First Time Homebuyers Credit.

E-File, E-Pay and Direct Deposit

The easiest way for taxpayers to receive their refund from their 2008 tax return is to file early and electronically. Electronic filing options will speed the payment of refunds to millions of taxpayers. Taxpayers who e-file and choose direct deposit for their refunds, for example, will get their refunds in as few as 10 days. That compares to approximately six weeks for people who file a paper return and get a traditional paper check. This year taxpayers could have begun filing electronically on Jan. 16.

The IRS in 2009 is again offering free tax preparation and filing through the Free File program. Anyone with an adjusted gross income up to \$56,000 can use the standard Free File options this year – that is approximately 98 million taxpayers. The program is also easier to use, including a standardized set of electronic forms that are most frequently used by Free File-eligible taxpayers.

This year, the IRS and its partners are offering a new option, “Free File Fillable Tax Forms” that opens up Free File to virtually everyone, even those whose incomes exceed \$56,000.

Free File Fillable Forms allows taxpayers to fill out and file their tax forms electronically, just as they would on paper. This option does not include an “interview” process like the traditional Free File offerings, but it does allow taxpayers to enter their tax data, perform basic math calculations, sign electronically, print their returns for recordkeeping and e-file their returns. It may be just right for those who are comfortable with the tax law and don’t need assistance completing their returns or those who use electronic software to prepare their returns but nevertheless file using paper forms.

Both the fillable-forms option and the previously available Free File offerings are available only through IRS.gov.

1040 Central

On one last point, I request the assistance of the Subcommittee in getting one critical message out to your constituents – the fastest way to get information from the IRS or to get questions answered is IRS.gov. When taxpayers visit IRS.gov this filing season, taxpayers may notice the new “rotating spotlight” feature on the homepage. The *spotlights*, which change every few seconds, give the taxpaying public direct access to more of the vast amount of content available to them on our web site

Also on the homepage, taxpayers can click on *1040 Central* to find help preparing and filing their tax returns. Like last year, this popular section of IRS.gov has a wide range of offerings that address taxpayer needs.

Finally, the IRS is producing a number of podcasts this filing season that will be available on IRS.gov. In addition to Tax Tips, Fact Sheets and News Releases, these short audio interviews cover a wide range of topics and are a way for the IRS to reach out to a new generation of taxpayers.

Summary

Thank you again, Mr. Chairman, for the opportunity to testify this morning. The IRS is committed to assist America’s taxpayers in any way it can during this difficult time. We understand that given the fragile state of the economy and the financial duress of many individuals, we may need to go even further. You have my commitment and that of Commissioner Shulman to work closely with you as we move forward.

I would be happy to respond to your questions.